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SUBJECT: PROGRESS, BUT NO ETA FOR TURKISH AIR IN TAJIKISTAN

REF: Dushanbe 1786

1. Turkish Airlines (TKA) has moved one step closer to introducing a new Istanbul-Dushanbe. The Turkish Ambassador Altay Cenziger reported a framework agreement was signed December 23, allowing Turkish Airlines to conduct technical assessments and preparations for the new route. He estimated flights could commence late January or early February, likely not coinciding with President Rahmonov's visit to Turkey January 15-19. The deal, part of an economic Partnership and Cooperation Agreement, gives Turkish Airlines one weekly flight and allows Tajikistan State Air (TSA) to continue operating its own Dushanbe-Istanbul route.

2. Despite the positive breakthrough, the agreement was over two years in the making, with much frustration and haggling on both sides. Cenziger had previously expressed frustration and bewilderment at the Tajiks' inflexibility, and commented in early December that this was TKA's last attempt to enter the Tajik market--if it did not succeed, the Turks would stop the TSA flight to Istanbul. Turkish Airlines does not anticipate

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making a profit on the initial flights, but hoped that three flights a week would eventually bring a larger customer base to TKA's connecting flights in Istanbul.

3. Firdavs Mukhtarov, head of TSA's Marketing Division, observed Turkish Airlines had played hardball, and should not expect TSA to give it three flights a week, thus undercutting TSA's own lucrative Dushanbe-Istanbul flight. The Tajiks still

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smart from Turkish Airlines' cancellation of a planned TSA Istanbul-Munich route (reftel).

4. In a December 23 meeting, Mukhtarov dismissed rumors that Munich Airport was going to prevent TSA from landing its aging Tupelovs. (NOTE: The international community relies heavily on that flight as the only direct connection to Europe. END NOTE) He observed the Dushanbe-Munich route did not benefit Tajiks, who rarely receive tourist visas for Europe. However, TSA would continue to operate the flight for the foreseeable future.

5. Internal competition and corruption blocked reform more than any external factors, according to Mukhtarov. The head of the department that sets prices has no business plan, no model for determining costs or profits. Another source in TSA confirmed a recent new report that on any given TSA flight, 10-30% of seats were automatically reserved for VIPs, often under the name Rahmonov or Ubaidalloyev, Dushanbe's powerful mayor. Asked about the implementation of an electronic ticketing system linked to the international reservation system, Mukhtarov smiled. "It should be done December 31." Would it be actually operational in a week? Silence. Some have speculated that the electronic system would make pricing and reservations transparent, thus eliminating a source of under-the-table income and special favors.

6. The European Bank for Reconstruction and Development (EBRD) recently announced a \$5 million loan to help TSA lease two new aircraft. Mukhtarov knew of no serious plans to lease Boeings with the assistance.

7. COMMENT: The international community continues to hold its breath at the thought of a Western carrier coming to Dushanbe, but the forces working against change within TSA present the real barrier to reform. There exists a catch-22: only a Western carrier that threatens TSA's market share will force TSA to meet international standards of business and customer service. But given TSA's control of airline industry, and the very limited profits for any Western carrier willing to fly to Tajikistan, few carriers aside from Turkish Airlines have any interest in Tajikistan.

8. COMMENT CONTINUED: The other longstanding catch is that international businessmen will not fly to Dushanbe without a Western-style hotel here. Local wisdom says an international-class hotel will not open until Western carriers bring the businessmen. There finally seems to be some movement on all of these fronts, but it has been painfully slow. END

COMMENT.

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